

CITY OF STORM LAKE

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Position	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet – Governmental Funds to the	
Statement of Net Position	D 16
Statement of Revenue, Expenditures, and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenue, Expenditures, and	
Changes in Fund Balances – Governmental Funds to the Statement	
of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Position	G 19
Statement of Revenue, Expenses, and Changes in Fund Net Position	H 20
Statement of Cash Flows	I 21-22
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	J 23
Statement of Changes in Fiduciary Net Position	K 24
Notes to Financial Statements	25-43
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements,	
and Changes in Balances - Budget and Actual (Cash Basis) -	
All Governmental Funds and Proprietary Funds	45
Budget to GAAP Reconciliation	46
Notes to Required Supplementary Information - Budgetary Reporting	47
Schedule of Funding Progress for the Retiree Health Plan	48
Supplementary Information:	
Nonmajor Governmental Funds:	<u>Schedule</u>
Combining Balance Sheet	1 50
Combining Schedule of Revenues, Expenditures, and	
Changes in Fund Balances	2 51
Schedule of and Changes in Assets and Liabilities – Agency Funds	3 52
Schedule of Revenues by Source and Expenditures by Function –	
All Governmental Funds	4 53
Schedule of Expenditures of Federal Awards	5 54
Independent Auditor's Report on Internal Control over Financial	
Reporting and on Compliance and Other Matters Based on an	
Audit of Financial Statements Performed in Accordance with	
<i>Government Auditing Standards</i>	55-56
Independent Auditor's Report on Compliance for Each Major Federal	
Program, on Internal Control over Compliance and on the Schedule of	
Expenditures of Federal Awards Required by OMB Circular A-133	57-58
Schedule of Findings	59-61

CITY OF STORM LAKE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Kruse	Mayor	December, 2013
David Walker	Mayor Pro Tem	December, 2015
Dan Anderson	Council Member	December, 2013
Mike Porsch	Council Member	December, 2013
Bruce Engelman	Council Member	December, 2015
Sara Huddleston	Council Member	December, 2015
James Patrick	City Manager	Indefinite
Justin Yarosevich	Assistant City Manager/City Clerk	Indefinite
Phil Havens	City Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

P.O. BOX 398
1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
www.hpccpa.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Storm Lake
Storm Lake, Iowa 50588

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Storm Lake, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Storm Lake as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 6 through 12 and 45 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Storm Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the eight years ended June 30, 2011 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014 on our consideration of City of Storm Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Storm Lake's internal control over financial reporting and compliance.

Hunnegelman, Putzier & Co., PLLC

February 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Storm Lake provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 17.8%, or approximately \$2,077,000, from fiscal year 2012 to fiscal year 2013. Charges for service decreased approximately \$271,000; operating grants, contributions, and restricted interest decreased approximately \$8,600; capital grants, contributions and restricted interest decreased approximately \$1,936,000, and property and other city tax revenues decreased approximately \$112,000.
- Program expenses of the City's governmental activities were down slightly, or approximately \$15,000, less in fiscal year 2013 than in fiscal year 2012. Public safety expenses increased approximately \$130,000; culture and recreation expenses decreased approximately \$175,000; public works expenses increased approximately \$208,000; interest on long-term debt decreased approximately \$62,000.
- The City of Storm Lake's net position increased 9.7% or approximately \$4,158,000, from June 30, 2012, to June 30, 2013. Of this amount, the net position of the governmental activities increased approximately \$313,000 and the net position of the business type activities increased approximately \$3,845,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of City as a whole and present an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the City acts solely as an agent or custodian for the benefit of those outside of City government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the nonmajor governmental funds and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents all of the City's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Position and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property and other taxes and state and federal grants finance most of these activities.
- Business-type activities include the waterworks, sanitary sewer system, storm water system, King's Pointe, and the City's sanitation department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three categories of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing, Local Option Sales Tax, and Employee Benefits Tax Levy, 3) the Debt Service Fund, and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

2) Proprietary funds account for the City's Enterprise Funds and Internal Service Funds. The funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater, Sanitation, and King's Pointe Funds, each considered to be a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

REPORTING THE CITY'S FINANCIAL ACTIVITIES - (Continued)

The financial statements required for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, and a Statement of Cash Flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the City's own programs. These fiduciary funds include a Pension Trust Fund, and various Agency Funds

The financial statement required for fiduciary funds is a Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for governmental and business type activities.

Net Position of Governmental Activities						
	Net Position at Year-End					
	Governmental Activities		Business-Type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 14,606,653	\$ 14,519,388	\$ 18,560,112	\$ 9,633,864	\$ 33,166,765	\$ 24,153,252
Capital assets	<u>26,795,216</u>	<u>26,980,028</u>	<u>37,956,868</u>	<u>33,663,868</u>	<u>64,752,084</u>	<u>60,643,896</u>
Total assets	<u>41,401,869</u>	<u>41,499,416</u>	<u>56,516,980</u>	<u>43,297,732</u>	<u>97,918,849</u>	<u>84,797,148</u>
Long-term liabilities	26,278,400	26,557,088	17,093,691	8,504,700	43,372,091	35,061,788
Other liabilities	<u>5,302,953</u>	<u>5,434,823</u>	<u>2,083,812</u>	<u>1,298,147</u>	<u>7,386,765</u>	<u>6,732,970</u>
Total liabilities	<u>31,581,353</u>	<u>31,991,911</u>	<u>19,177,503</u>	<u>9,802,847</u>	<u>50,758,856</u>	<u>41,794,758</u>
Net position						
Net investment in capital assets	1,381,666	811,847	21,032,642	25,837,065	22,414,308	26,648,912
Restricted	6,662,151	6,943,632	1,582,042	1,050,593	8,244,193	7,994,225
Unrestricted	<u>1,776,699</u>	<u>1,752,026</u>	<u>14,724,793</u>	<u>6,607,227</u>	<u>16,501,492</u>	<u>8,359,253</u>
Total net position	<u>\$ 9,820,516</u>	<u>\$ 9,507,505</u>	<u>\$ 37,339,477</u>	<u>\$ 33,494,885</u>	<u>\$ 47,159,993</u>	<u>\$ 43,002,390</u>

Net position of the City's governmental activities increased approximately \$313,000, or 3.3% over fiscal year 2012. Net position of business type activities increased approximately \$3,845,000, or 11.48%, over fiscal year 2012. The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Changes in Net Position of Governmental Activities

	Changes in Net Position for the Year Ended June 30,					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for service	\$ 2,153,541	\$ 2,424,370	\$ 11,335,911	\$ 10,104,384	\$ 13,489,452	\$ 12,528,754
Operating grants, contributions, and restricted interest	1,487,992	1,496,585	-	-	1,487,992	1,496,585
Capital grants, contributions, and restricted interest	499,066	2,435,443	3,544,566	254,292	4,043,632	2,689,735
General revenues:						
Property tax levied for:						
General purposes	3,395,934	3,170,299	-	-	3,395,934	3,170,299
Debt service	311,475	314,837	-	-	311,475	314,837
Tax increment financing	642,415	759,106	-	-	642,415	759,106
Other taxes	1,447,975	1,665,872	-	-	1,447,975	1,665,872
Unrestricted investment earnings	13,881	24,351	18,267	33,279	32,148	57,630
Miscellaneous	309	6,677	-	-	309	6,677
Transfers	(390,955)	(658,707)	146,027	537,172	(244,928)	(121,535)
Total revenues	<u>9,561,633</u>	<u>11,638,833</u>	<u>15,044,771</u>	<u>10,929,127</u>	<u>24,606,404</u>	<u>22,567,960</u>
Program expenses:						
Public safety	2,587,354	2,457,239	-	-	2,587,354	2,457,239
Public works	2,102,507	1,894,652	-	-	2,102,507	1,894,652
Health and social services	3,504	4,276	-	-	3,504	4,276
Culture and recreation	1,848,557	2,023,637	-	-	1,848,557	2,023,637
Community and economic development	598,318	712,887	-	-	598,318	712,887
General government	962,430	962,430	-	-	962,430	962,430
Interest on long-term debt	1,145,952	1,208,319	-	-	1,145,952	1,208,319
Water	-	-	3,044,219	2,557,393	3,044,219	2,557,393
Wastewater	-	-	1,987,106	2,002,971	1,987,106	2,002,971
Landfill	-	-	458,819	510,413	458,819	510,413
Storm water	-	-	341,469	310,193	341,469	310,193
King's Pointe	-	-	5,368,566	4,599,688	5,368,566	4,599,688
Total expenses	<u>9,248,622</u>	<u>9,263,440</u>	<u>11,200,179</u>	<u>9,980,658</u>	<u>20,448,801</u>	<u>19,244,098</u>
Increase in net position	313,011	2,375,393	3,844,592	948,469	4,157,603	3,323,862
Net position beginning of year	<u>9,507,505</u>	<u>7,132,112</u>	<u>33,494,885</u>	<u>32,546,416</u>	<u>43,002,390</u>	<u>39,678,528</u>
Net position end of year	<u>\$ 9,820,516</u>	<u>\$ 9,507,505</u>	<u>\$ 37,339,477</u>	<u>\$ 33,494,885</u>	<u>\$ 47,159,993</u>	<u>\$ 43,002,390</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

The City's net position of governmental activities increased approximately \$313,000 during the year. Revenues for governmental activities decreased approximately \$2,077,000 from the prior year.

The cost of all governmental activities this year was approximately \$9.3 million compared to approximately \$9.3 million last year. However, as shown in the Statement of Activities on page 14, the amount taxpayers ultimately financed for these activities was approximately only \$5.1 million because some of the cost was paid by those directly benefited from the programs (\$2.2 million) or by other governments and organizations which subsidized certain programs with grants and contributions (\$2 million).

The City's net position of business type activities increased approximately \$3,845,000 during the year. Revenues for business type activities increased approximately \$4,116,000 over the prior year while total expenses were approximately \$1,220,000 more than the prior fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$7,705,645, an increase of \$68,202 from the prior year ending fund balance total of \$7,637,443. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

- From FY'12 to FY'13, the General Fund showed a decline in fund balance of \$60,302. Expenditures increased \$52,248, and revenues increased \$35,015.
- The Special Revenue, Road Use Tax Fund accounts for the road use tax allocation from the State of Iowa to be used for road construction and maintenance. This fund ended fiscal year 2013 with a \$200,115 balance compared to the prior year ending balance of \$488,958.
- The Special Revenue, Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, and community programs and services. This fund ended fiscal year 2013 with a \$616,667 balance compared to the prior year ending fund balance of \$763,189. Local option sales tax revenue decreased \$147,367 from fiscal year 2012.
- The Special Revenue, Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits. This fund ended fiscal year 2013 with a \$12,656 fund balance compared to the prior year ending fund balance of \$86,776.
- The Special Revenue, Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used for transfers to other funds to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal development projects. This fund ended fiscal year 2013 with a \$(345,435) balance compared to the prior year ending fund balance of \$(330,348). The deficit fund balance is a result of unpaid taxes in the TIF area and capital expenses in the new TIF area.
- The Debt Service Fund ended fiscal year 2013 with a \$3,824,199 balance compared to the prior year ending fund balance of \$3,878,491.
- The Capital Projects Fund ended fiscal year 2013 with a \$1,774,967 balance compared to the prior year ending fund balance of \$1,025,999. The increase was primarily a result of bonds proceeds received during the year for costs previously incurred.

Proprietary Fund Highlights

- The Enterprise, Water Fund, which accounts for the operation and maintenance of the City's water system, ended 2013 with a net position balance of \$8,785,502 compared to the prior year ending net position balance of \$8,109,310.
- The Enterprise, Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended 2013 with a net position balance of \$8,384,163 compared to the prior year ending net position balance of \$4,751,941.
- The Enterprise, King's Pointe Fund, which accounts for the operation and maintenance of King's Pointe Resort, ended 2013 with a net position balance of \$18,512,083 compared to the prior year ending net position balance of \$19,284,087.
- The other major enterprise funds ended 2013 with a net position balance of \$1,657,729 compared to the prior year ending net position balance of \$1,349,547.
- The Internal Service Funds are used by management to charge the cost of employee health benefits, technology purchases, and fleet purchases to the individual funds. The net position of the Internal Service Fund increased \$158,899 to \$1,152,724.

BUDGETARY HIGHLIGHTS

During FY'13, The City of Storm Lake amended its budget one time. The amendment, approved May 20, 2013, increased expenses for the public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities.

The increase in expenses is due to increases in vehicle operations, additional employees, capital projects that were not complete in the previous fiscal year and the expenses were paid this year, airport fuel, legal services, sales tax and the FEMA project moving forward with three of five contracts in progress.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals, and other infrastructure. Capital assets for governmental activities totaled approximately \$26,795,000 (net of accumulated depreciation/amortization) at June 30, 2013. Capital assets for business-type activities totaled approximately \$37,957,000 (net of accumulated depreciation) at June 30, 2013. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included land purchased for the Airport RPZ project, construction projects on Vestal and West 6th streets, improvements to McKenna and Bargloff roads, Airport Fuel System Rehabilitation, and the purchase of additional warning signs.

For business-type activities, major capital outlays included Bargloff road water and sewer improvements, East Central Storm Water Project, Highway 110 Sewer Main Extension, E. Lakeshore Drive Water Main Extension and the FEMA Sewer Mitigation Project.

Construction in progress at June 30, 2013 for governmental activities consists primarily of costs incurred in connection with the Lake Avenue Trail and West 5th Street projects.

Construction in progress at June 30, 2013 for business-type activities consists of costs associated with the FEMA Sewer Mitigation, Well Development, and East Central Storm Water projects.

Long Term Debt

At June 30, 2013, the City had \$25,885,000 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business-type activities was \$16,983,082 at June 30, 2013.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. At June 30, 2013, the city was at 73% of its constitutional debt limit of approximately \$22,122,000 with a computed outstanding balance of approximately \$16,130,000. While the total general obligation debt outstanding exceeds this amount, certain general obligation bonds include annual appropriation terms. The annual appropriation amount is the principal and interest due in the next year, and only this amount is required to be included in the computation of the statutory debt limit.

Additional information about the City's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Storm Lake is continuing to see growth in both the commercial and industrial areas. This is evidenced by new businesses coming to the community as well as existing business expanding. This growth has made housing an even larger focus for the City. Working with housing developers and looking at tax credit housing projects will be a priority to ensure that our growing workforce and population are able to work and live in Storm Lake.

Revenues in both Local Option Sales Tax and Hotel/Motel Tax continue to increase. These revenues are both indicators of the healthy economy that Storm Lake has.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of The City of Storm Lake's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, 620 Erie Street, Storm Lake, Iowa, 50588.

CITY OF STORM LAKE
STATEMENT OF NET POSITION
JUNE 30, 2013

Exhibit A

	Governmental Activities	Business Type Activities	Total
<u>ASSETS</u>			
Cash, cash equivalents and pooled investments	\$ 4,628,297	\$ 13,575,274	\$ 18,203,571
U.S. Treasury Securities on deposit with escrow agent	3,707,031	-	3,707,031
Receivables:			
Property tax:			
Delinquent	87,360	-	87,360
Succeeding year	3,899,382	-	3,899,382
Tax increment financing:			
Delinquent	250,373	-	250,373
Succeeding year	678,466	-	678,466
Accounts	171,414	1,250,314	1,421,728
Accrued interest	1,829	1,374	3,203
Due from other governments	660,964	1,486,284	2,147,248
Due from other funds	72,170	89,728	161,898
Inventories and prepaids	246,807	328,480	575,287
Restricted assets:			
Cash and cash equivalents	-	1,673,138	1,673,138
Pledges receivable	67,949	-	67,949
Unamortized loan fees	-	155,520	155,520
Unamortized bond issue costs	134,611	-	134,611
Capital assets (net of accumulated depreciation/amortization)	26,795,216	37,956,868	64,752,084
Total assets	<u>\$ 41,401,869</u>	<u>\$ 56,516,980</u>	<u>\$ 97,918,849</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 455,873	\$ 1,352,756	\$ 1,808,629
Accrued interest payable	94,963	66,359	161,322
Accrued wages and benefits	82,960	149,159	232,119
Accrued expenses	1,581	352,274	353,855
Payable from restricted assets	-	91,096	91,096
Due to other funds	89,728	72,168	161,896
Deferred revenue:			
Succeeding year property tax	3,899,382	-	3,899,382
Succeeding year tax increment financing	678,466	-	678,466
Long-term liabilities:			
Portion due or payable within one year	1,250,490	884,691	2,135,181
Portion due or payable after one year	25,027,910	16,209,000	41,236,910
Total liabilities	<u>31,581,353</u>	<u>19,177,503</u>	<u>50,758,856</u>
<u>NET POSITION</u>			
Net investment in capital assets	1,381,666	21,032,642	22,414,308
Restricted for:			
Roads	290,597	-	290,597
Debt service	3,892,238	1,582,042	5,474,280
Capital improvements	1,872,316	-	1,872,316
Other purposes	607,000	-	607,000
Unrestricted	1,776,699	14,724,793	16,501,492
Total net position	<u>\$ 9,820,516</u>	<u>\$ 37,339,477</u>	<u>\$ 47,159,993</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Exhibit B

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 2,587,354	\$ 314,448	\$ 128,968	\$ 16,567	\$ (2,127,371)	\$ -	\$ (2,127,371)
Public works	2,102,507	521,030	1,141,946	193,617	(245,914)	-	(245,914)
Health and social services	3,504	-	-	-	(3,504)	-	(3,504)
Culture and recreation	1,848,557	925,298	65,522	57,754	(799,983)	-	(799,983)
Community and economic development	598,318	6,620	125,689	61,711	(404,298)	-	(404,298)
General government	962,430	386,145	-	169,417	(406,868)	-	(406,868)
Interest on long-term debt	1,145,952	-	25,867	-	(1,120,085)	-	(1,120,085)
Total governmental activities	9,248,622	2,153,541	1,487,992	499,066	(5,108,023)	-	(5,108,023)
Business-type activities:							
Water	3,044,219	3,245,619	-	-	-	201,400	201,400
Sewer	1,987,106	2,382,547	-	3,252,453	-	3,647,894	3,647,894
King's Pointe	5,368,566	4,883,480	-	-	-	(485,086)	(485,086)
Sanitation	458,819	495,880	-	-	-	37,061	37,061
Storm Water	341,469	328,385	-	292,113	-	279,029	279,029
Total business-type activities	11,200,179	11,335,911	-	3,544,566	-	3,680,298	3,680,298
Total	<u>\$20,448,801</u>	<u>\$ 13,489,452</u>	<u>\$ 1,487,992</u>	<u>\$ 4,043,632</u>	<u>(5,108,023)</u>	<u>3,680,298</u>	<u>(1,427,725)</u>
General Revenues and Transfers:							
Property and other city tax levied for:							
General purposes					3,395,934	-	3,395,934
Debt service					311,475	-	311,475
Tax increment financing					642,415	-	642,415
Hotel motel tax					271,369	-	271,369
Local option sales tax					1,176,606	-	1,176,606
Unrestricted interest on investments					13,881	18,267	32,148
Miscellaneous					309	-	309
Transfers					(390,955)	146,027	(244,928)
Total general revenues and transfers					<u>5,421,034</u>	<u>164,294</u>	<u>5,585,328</u>
Change in net position					313,011	3,844,592	4,157,603
Net position beginning of year					<u>9,507,505</u>	<u>33,494,885</u>	<u>43,002,390</u>
Net position end of year					<u>\$ 9,820,516</u>	<u>\$ 37,339,477</u>	<u>\$47,159,993</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

Exhibit C

ASSETS	Special Revenue								Total
	General	Road Use Tax	Local Option Sales Tax	Special Levy	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	
Cash, cash equivalents and pooled investments	\$ 657,308	\$ 125,629	\$ 425,368	\$ -	\$ -	\$ 117,168	\$ 1,639,498	\$ 487,244	\$ 3,452,215
U.S. Treasury Securities on deposit with escrow agent	-	-	-	-	-	3,707,031	-	-	3,707,031
Receivables									
Property tax:									
Delinquent	52,725	-	-	25,354	-	7,636	-	1,645	87,360
Succeeding year	2,315,736	-	-	1,171,910	-	341,736	-	70,000	3,899,382
Tax increment financing:									
Delinquent	-	-	-	-	250,373	-	-	-	250,373
Succeeding year	-	-	-	-	678,466	-	-	-	678,466
Accounts	108,036	12,580	-	-	-	-	50,692	105	171,413
Accrued interest	1,132	-	-	-	-	-	690	7	1,829
Pledges	-	-	-	-	-	-	67,949	-	67,949
Due from other governments	67,085	87,731	191,299	-	-	-	314,849	-	660,964
Due from other funds	467,705	-	-	-	-	-	-	-	467,705
Inventories	60,166	1,366	-	-	-	-	-	-	61,532
Prepaid expenses	3,675	2,783	-	85,714	-	-	-	70,818	162,990
Total assets	\$ 3,733,568	\$ 230,089	\$ 616,667	\$ 1,282,978	\$ 928,839	\$ 4,173,571	\$ 2,073,678	\$ 629,819	\$ 13,669,209
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 133,323	\$ 22,574	\$ -	\$ 4,536	\$ 18,421	\$ -	\$ 230,762	\$ 613	\$ 410,229
Salaries and benefits payable	75,560	7,400	-	-	-	-	-	-	82,960
Accrued liabilities	1,581	-	-	-	-	-	-	-	1,581
Due to other funds	89,728	-	-	68,522	327,014	-	-	-	485,264
Deferred revenue:									
Succeeding year property tax	2,315,736	-	-	1,171,910	-	341,736	-	70,000	3,899,382
Succeeding year tax increment financing	-	-	-	-	678,466	-	-	-	678,466
Other	52,725	-	-	25,354	250,373	7,636	67,949	1,645	405,682
Total liabilities	2,668,653	29,974	-	1,270,322	1,274,274	349,372	298,711	72,258	5,963,564
Fund balances:									
Nonspendable:									
Prepaid expenditures	3,675	2,783	-	85,714	-	-	-	70,818	162,990
Other	60,166	1,366	-	-	-	-	-	2,714	64,246
Restricted:									
Streets	-	195,966	-	-	-	-	-	-	195,966
Capital improvements	-	-	616,667	-	-	-	-	-	616,667
Debt service	-	-	-	-	-	3,824,199	-	-	3,824,199
Other purposes	9,786	-	-	-	-	-	-	231,281	241,067
Assigned:									
Capital projects	-	-	-	-	-	-	1,774,967	-	1,774,967
Library	-	-	-	-	-	-	-	103,599	103,599
Law enforcement	-	-	-	-	-	-	-	149,149	149,149
Unassigned	991,288	-	-	(73,058)	(345,435)	-	-	-	572,795
Total fund balances	1,064,915	200,115	616,667	12,656	(345,435)	3,824,199	1,774,967	557,561	7,705,645
Total liabilities and fund balances	\$ 3,733,568	\$ 230,089	\$ 616,667	\$ 1,282,978	\$ 928,839	\$ 4,173,571	\$ 2,073,678	\$ 629,819	\$ 13,669,209

See Notes to Financial Statements.

CITY OF STORM LAKE
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Exhibit D

Total governmental fund balances	\$ 7,705,645
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Certain receivables are not available financial resources and, therefore, are deferred revenue in the governmental funds.	405,682
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$41,338,185 and the accumulated depreciation/amortization is \$14,542,969.	26,795,216
Bond issue costs are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	134,611
The Internal Service Fund is used by management to charge the costs of employee health benefits and fleet purchases to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Position.	1,152,724
Long-term liabilities, including bonds payable, accrued interest payable, compensated absences payable, and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(26,373,362)</u>
Net position of governmental activities	<u>\$ 9,820,516</u>

CITY OF STORM LAKE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

Exhibit E

	Special Revenue								
	General	Road Use Tax	Local Option Sales Tax	Special Levy	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
Revenues:									
Property tax	\$ 2,143,850	\$ -	\$ -	\$ 1,030,420	\$ -	\$ 311,127	\$ -	\$ 66,843	\$ 3,552,240
Tax increment financing	-	-	-	-	634,493	-	-	-	634,493
Other city tax	359,619	-	1,176,605	42,445	-	11,973	-	2,750	1,593,392
Licenses and permits	149,335	15,621	-	-	-	-	-	-	164,956
Use of money and property	140,315	-	1,712	-	-	13,661	3,528	1,223	160,439
Intergovernmental	74,321	1,027,769	-	-	-	-	433,866	5,473	1,541,429
Charges for services	1,321,479	16,364	-	-	-	-	-	747	1,338,590
Miscellaneous	386,026	-	-	-	-	-	74,534	99,924	560,484
Total revenues	4,574,945	1,059,754	1,178,317	1,072,865	634,493	336,761	511,928	176,960	9,546,023
Expenditures:									
Operating:									
Public safety	1,875,603	-	-	455,853	-	-	-	68,055	2,399,511
Public works	459,411	752,723	-	155,419	-	-	-	-	1,367,553
Health and social services	3,504	-	-	-	-	-	-	-	3,504
Culture and recreation	1,291,521	-	-	163,057	-	-	-	10,966	1,465,544
Community and economic development	474,920	-	-	28,391	28,790	-	-	1,314	533,415
General government	259,431	-	-	40,835	-	-	-	138,225	438,491
Debt service	-	-	-	-	-	1,961,769	-	-	1,961,769
Capital Projects	-	-	-	-	-	-	1,420,351	-	1,420,351
Total expenditures	4,364,390	752,723	-	843,555	28,790	1,961,769	1,420,351	218,560	9,590,138
Excess (deficiency) of revenues over expenditures	210,555	307,031	1,178,317	229,310	605,703	(1,625,008)	(908,423)	(41,600)	(44,115)
Other financing sources (uses):									
General obligation bonds issued	-	-	-	-	-	-	480,000	-	480,000
Premium on general obligation bonds issued	-	-	-	-	-	-	12,168	-	12,168
Operating transfers in	143,520	-	-	-	49,790	1,639,751	1,642,754	-	3,475,815
Operating transfers out	(414,377)	(595,874)	(1,324,839)	(303,430)	(670,580)	(69,035)	(477,531)	-	(3,855,666)
Total other financing sources (uses)	(270,857)	(595,874)	(1,324,839)	(303,430)	(620,790)	1,570,716	1,657,391	-	112,317
Net change in fund balances	(60,302)	(288,843)	(146,522)	(74,120)	(15,087)	(54,292)	748,968	(41,600)	68,202
Fund balances, beginning of year	1,125,217	488,958	763,189	86,776	(330,348)	3,878,491	1,025,999	599,161	7,637,443
Fund balances, end of year	\$ 1,064,915	\$ 200,115	\$ 616,667	\$ 12,656	\$ (345,435)	\$ 3,824,199	\$ 1,774,967	\$ 557,561	\$ 7,705,645

See Notes to Financial Statements.

CITY OF STORM LAKE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit F

Net change in fund balances - Total governmental funds		\$ 68,202
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Depreciation/amortization expense exceeded capital outlay expenditures in the current year as follows:		
Expenditures for capital assets	\$ 1,322,404	
Depreciation/amortization expense	<u>(1,507,217)</u>	(184,813)
Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds as follows:		
Property tax	17,674	
Other	<u>(4,292)</u>	13,382
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issues exceeded repayments as follows:		
Repaid general obligation bonds	825,000	
Issued general obligation bonds	(480,000)	
Discount on general obligation bonds issued	(12,168)	
Amortization of deferred charges	<u>(8,935)</u>	323,897
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Compensated absences	(48,833)	
Other post employment benefits	(17,479)	
Interest on long-term debt	<u>(244)</u>	(66,556)
The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities.		<u>158,899</u>
Change in net position of governmental activities		<u>\$ 313,011</u>

CITY OF STORM LAKE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

Exhibit G

	Enterprise Funds						Internal Service Funds
	Water	Wastewater	King's Pointe	Sanitation	Storm Water	Total	
<u>ASSETS</u>							
Cash, cash equivalents and pooled investments	\$ 5,934,545	\$ 5,040,606	\$ 945,839	\$ 229,990	\$ 1,424,294	\$ 13,575,274	\$ 1,176,082
Receivables:							
Customer accounts and unbilled usage	483,560	385,290	207,870	96,522	77,072	1,250,314	-
Accrued interest	139	465	770	-	-	1,374	-
Due from other governments	147	1,323,175	-	-	162,962	1,486,284	-
Due from other funds	-	-	89,728	-	-	89,728	-
Inventories	97,846	613	38,670	-	2,788	139,917	13,396
Prepaid expenses	60,462	59,044	62,476	2,049	4,532	188,563	8,886
Restricted cash and cash equivalents	166,072	1,452,257	-	-	54,809	1,673,138	-
Capital assets	9,618,705	8,794,526	17,949,493	-	1,594,144	37,956,868	-
Other assets	27,982	102,316	-	-	25,222	155,520	-
Total assets	<u>\$ 16,389,458</u>	<u>\$ 17,158,292</u>	<u>\$ 19,294,846</u>	<u>\$ 328,561</u>	<u>\$ 3,345,823</u>	<u>\$ 56,516,980</u>	<u>\$ 1,198,364</u>
<u>LIABILITIES AND NET POSITION</u>							
Liabilities:							
Accounts Payable	\$ 203,111	\$ 611,510	\$ 189,528	\$ 1,176	\$ 347,430	\$ 1,352,755	\$ 45,640
Salaries and benefits payable	9,457	8,283	129,537	372	1,510	149,159	-
Accrued liabilities	-	-	352,274	-	-	352,274	-
Customer deposits payable from restricted assets	91,096	-	-	-	-	91,096	-
Due to other funds	-	-	72,169	-	-	72,169	-
Compensated absences	57,337	43,814	-	1,814	7,644	110,609	-
Interest payable	43,955	18,522	173	-	3,709	66,359	-
Note payable - bank	-	-	39,082	-	-	39,082	-
Revenue notes payable - short-term	369,000	304,000	-	-	62,000	735,000	-
Revenue notes payable - long-term	6,830,000	7,788,000	-	-	1,591,000	16,209,000	-
Total liabilities	<u>7,603,956</u>	<u>8,774,129</u>	<u>782,763</u>	<u>3,362</u>	<u>2,013,293</u>	<u>19,177,503</u>	<u>45,640</u>
Net position:							
Net investment in capital assets	2,419,705	702,526	17,910,411	-	-	21,032,642	-
Restricted for revenue bond retirement	74,976	1,452,257	-	-	54,809	1,582,042	-
Unrestricted	6,290,821	6,229,380	601,672	325,199	1,277,721	14,724,793	1,152,724
Total net position	<u>8,785,502</u>	<u>8,384,163</u>	<u>18,512,083</u>	<u>325,199</u>	<u>1,332,530</u>	<u>37,339,477</u>	<u>1,152,724</u>
Total liabilities and net position	<u>\$ 16,389,458</u>	<u>\$ 17,158,292</u>	<u>\$ 19,294,846</u>	<u>\$ 328,561</u>	<u>\$ 3,345,823</u>	<u>\$ 56,516,980</u>	<u>\$ 1,198,364</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

Exhibit H

	Enterprise						Internal
	Water	Wastewater	King's Pointe	Sanitation	Storm Water	Total	Service Funds
Operating revenues:							
Charges for services	\$ 3,076,321	\$ 2,378,450	\$ 4,713,872	\$ 495,110	\$ 324,830	\$ 10,988,583	\$ 730,921
Miscellaneous	169,298	4,097	169,608	770	3,555	347,328	376,349
Total operating revenues	<u>3,245,619</u>	<u>2,382,547</u>	<u>4,883,480</u>	<u>495,880</u>	<u>328,385</u>	<u>11,335,911</u>	<u>1,107,270</u>
Operating expenses:							
Business type activities:							
Cost of sales and services	2,062,262	1,431,916	4,564,768	458,820	253,581	8,771,347	939,965
Depreciation and amortization	766,624	476,197	803,797	-	66,410	2,113,028	-
Total operating expenses	<u>2,828,886</u>	<u>1,908,113</u>	<u>5,368,565</u>	<u>458,820</u>	<u>319,991</u>	<u>10,884,375</u>	<u>939,965</u>
Operating income (loss)	<u>416,733</u>	<u>474,434</u>	<u>(485,085)</u>	<u>37,060</u>	<u>8,394</u>	<u>451,536</u>	<u>167,305</u>
Non-operating revenues (expenses)							
Intergovernmental	-	3,252,453	-	-	292,113	3,544,566	-
Interest income	8,773	5,013	2,387	502	1,592	18,267	2,700
Interest expense	(215,332)	(78,993)	-	-	(21,479)	(315,804)	-
Net non-operating revenues (expenses)	<u>(206,559)</u>	<u>3,178,473</u>	<u>2,387</u>	<u>502</u>	<u>272,226</u>	<u>3,247,029</u>	<u>2,700</u>
Excess (deficiency) of revenues over expenditures	<u>210,174</u>	<u>3,652,907</u>	<u>(482,698)</u>	<u>37,562</u>	<u>280,620</u>	<u>3,698,565</u>	<u>170,005</u>
Other financing sources (uses)							
Operating transfers in	526,016	54,125	503,820	-	-	1,083,961	-
Operating transfers out	(59,998)	(74,810)	(793,126)	(10,000)	-	(937,934)	(11,106)
Total other financing sources (uses)	<u>466,018</u>	<u>(20,685)</u>	<u>(289,306)</u>	<u>(10,000)</u>	<u>-</u>	<u>146,027</u>	<u>(11,106)</u>
Change in net position	676,192	3,632,222	(772,004)	27,562	280,620	3,844,592	158,899
Net position beginning of year	<u>8,109,310</u>	<u>4,751,941</u>	<u>19,284,087</u>	<u>297,637</u>	<u>1,051,910</u>	<u>33,494,885</u>	<u>993,825</u>
Net position end of year	<u>\$ 8,785,502</u>	<u>\$ 8,384,163</u>	<u>\$ 18,512,083</u>	<u>\$ 325,199</u>	<u>\$ 1,332,530</u>	<u>\$ 37,339,477</u>	<u>\$ 1,152,724</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

Exhibit I

	Enterprise Funds						
	<u>Water</u>	<u>Wastewater</u>	<u>King's Pointe</u>	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:							
Receipts from customers	\$ 3,398,925	\$ 2,366,953	\$ 4,556,731	\$ 497,467	\$ 317,900	\$ 11,137,976	\$ 1,111,807
Cash paid for personal services	(454,843)	(381,721)	(1,072,570)	(25,451)	(100,582)	(2,035,167)	-
Cash paid to suppliers	(1,564,618)	(965,141)	(3,187,179)	(432,890)	(85,749)	(6,235,577)	(968,253)
Net cash provided by operating activities	<u>1,379,464</u>	<u>1,020,091</u>	<u>296,982</u>	<u>39,126</u>	<u>131,569</u>	<u>2,867,232</u>	<u>143,554</u>
Cash flows from noncapital financing activities:							
Advances from other funds	526,016	54,125	503,820	-	-	1,083,961	-
Advances to other funds	(59,998)	(74,810)	(793,126)	(10,000)	-	(937,934)	(11,106)
Net cash provided (used) by noncapital financing activities	<u>466,018</u>	<u>(20,685)</u>	<u>(289,306)</u>	<u>(10,000)</u>	<u>-</u>	<u>146,027</u>	<u>(11,106)</u>
Cash flows from capital and related financing activities:							
Acquisition of capital assets	(530,510)	(4,749,043)	(228,265)	-	(384,120)	(5,891,938)	-
Proceeds from capital grants	-	1,929,276	-	-	129,151	2,058,427	-
Proceeds from revenue bonds	2,356,779	5,948,400	-	-	1,082,180	9,387,359	-
Repayment of revenue bonds	(859,000)	(53,000)	-	-	(31,000)	(943,000)	-
Interest payments	(184,698)	(65,673)	-	-	(19,230)	(269,601)	-
Net cash provided (used) by capital and related financing activities	<u>782,571</u>	<u>3,009,960</u>	<u>(228,265)</u>	<u>-</u>	<u>776,981</u>	<u>4,341,247</u>	<u>-</u>
Cash flows from investing activities:							
Interest on investments	9,032	5,098	2,145	502	1,592	18,369	2,700
Net cash provided by investing activities	<u>9,032</u>	<u>5,098</u>	<u>2,145</u>	<u>502</u>	<u>1,592</u>	<u>18,369</u>	<u>2,700</u>
Net increase (decrease) in cash and cash equivalents	2,637,085	4,014,464	(218,444)	29,628	910,142	7,372,875	135,148
Cash and cash equivalents, beginning of year	<u>3,463,532</u>	<u>2,478,399</u>	<u>1,164,283</u>	<u>200,362</u>	<u>568,961</u>	<u>7,875,537</u>	<u>1,040,934</u>
Cash and cash equivalents, end of year	<u>\$ 6,100,617</u>	<u>\$ 6,492,863</u>	<u>\$ 945,839</u>	<u>\$ 229,990</u>	<u>\$ 1,479,103</u>	<u>\$ 15,248,412</u>	<u>\$ 1,176,082</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

Exhibit I
(continued)

	Enterprise Funds						
	<u>Water</u>	<u>Wastewater</u>	<u>King's Pointe</u>	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>	<u>Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by operating activities							
Operating income (loss)	\$ 416,733	\$ 474,434	\$ (485,085)	\$ 37,060	\$ 8,394	\$ 451,536	\$ 167,305
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:							
Depreciation	762,882	474,478	803,797	-	65,761	2,106,918	-
Amortization	3,742	1,719	-	-	649	6,110	-
(Increase) decrease in accounts receivable and unbilled usage	68,553	(15,594)	96,097	1,587	(10,485)	140,158	4,537
Increase in due from other governments	(147)	-	-	-	-	(147)	-
Decrease in due from other funds	79,000	-	2,175	-	-	81,175	-
(Increase) decrease in inventories	(97,846)	(613)	3,429	-	(2,788)	(97,818)	(2,956)
Increase in prepaid expenses	(10,647)	(9,229)	(5,395)	(1,210)	(3,693)	(30,174)	(8,886)
Increase (decrease) in accounts payable	142,221	87,634	(25,529)	1,128	71,874	277,328	-
Increase (decrease) in salaries and benefits payable	327	288	25,754	(12)	241	26,598	-
Decrease in accrued expenses	-	-	(42,268)	-	-	(42,268)	-
Decrease in due to other funds	-	-	(75,993)	-	-	(75,993)	-
Increase (decrease) in incurred and unpaid claims	5,900	-	-	-	-	5,900	(16,446)
Increase in compensated absences	8,746	6,974	-	573	1,616	17,909	-
Net cash provided by operating activities	<u>\$ 1,379,464</u>	<u>\$ 1,020,091</u>	<u>\$ 296,982</u>	<u>\$ 39,126</u>	<u>\$ 131,569</u>	<u>\$ 2,867,232</u>	<u>\$ 143,554</u>
Reconciliation of cash and cash equivalents to specific assets included on the statement of net position - proprietary funds							
Cash and cash equivalents	\$ 5,934,545	\$ 5,040,606	\$ 945,839	\$ 229,990	\$ 1,424,294	\$ 13,575,274	\$ 1,176,082
Restricted cash and cash equivalents	<u>166,072</u>	<u>1,452,257</u>	<u>-</u>	<u>-</u>	<u>54,809</u>	<u>1,673,138</u>	<u>-</u>
	<u>\$ 6,100,617</u>	<u>\$ 6,492,863</u>	<u>\$ 945,839</u>	<u>\$ 229,990</u>	<u>\$ 1,479,103</u>	<u>\$ 15,248,412</u>	<u>\$ 1,176,082</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

Exhibit J

	<u>Pension Trust</u>	<u>Agency</u>		
		<u>Lake</u>	<u>Gingerbread</u>	
	<u>Police/Fire</u>	<u>Improvements</u>	<u>House</u>	<u>Drainage</u>
		<u>Commission</u>		
Assets:				
Cash, cash equivalents	\$ -	\$ 1,668,892	\$ 19,363	\$ (81,433)
and pooled investments	-	863	-	-
Interest receivable	-	88,511	-	81,433
Due from other governments	-			
Total assets	<u>\$ -</u>	<u>\$ 1,758,266</u>	<u>\$ 19,363</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	\$ -	\$ 172,803	\$ 19,363	\$ -
Due to other governments	-	1,585,463	-	-
Total liabilities	<u>-</u>	<u>1,758,266</u>	<u>19,363</u>	<u>-</u>
Net Position				
Reserved for pensions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and net position	<u>\$ -</u>	<u>\$ 1,758,266</u>	<u>\$ 19,363</u>	<u>\$ -</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013

Exhibit K

	<u>Pension Trust</u>
	<u>Police/Fire</u>
Additions:	
Transfers in	\$ 244,928
Deductions:	
Public safety	<u>244,928</u>
Change in net position	-
Net position beginning of year	<u>-</u>
Net position end of year	<u>\$ -</u>

See Notes to Financial Statements.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies

The City of Storm Lake is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, storm water, and landfill utilities for its citizens and owns and operates a hotel and indoor water park.

The financial statements of the City of Storm Lake have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard Board criteria.

Jointly Governed Organizations -The City participates in a jointly governed organization agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within Buena Vista County and member cities.

The City's ongoing financial interest in the jointly governed organization consists of the operation of the landfill and other solid waste collection and disposal operations. The City collects landfill fees as a part of its regular utility billings. The Commission then bills the City quarterly for its operations. This fee is computed for each municipality on a per capita basis. For the year ended June 30, 2013, this fee totaled \$392,200.

Copies of the Commission's financial statements are available from the City Clerk at the City of Alta, or from the State Auditor's Office.

The City participates in a jointly governed organization agreement with the Lake Improvements Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The financial information for the Commission is reflected as an agency fund in these financial statements. The purpose of the Commission is to finance and effect a continued dredging of Storm Lake.

Copies of the Commission's financial statements are available from the City Clerk at City of Storm Lake, 620 Erie Street, Storm Lake, IA 50588 or from the State Auditor's Office.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies - (Continued)

A. Reporting Entity - (Continued)

The City also participates in several jointly governed organizations for which the City is not financially accountable, or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission, Buena Vista County Communications Commission, Joint E911 Service Board, Region V Drug Task Force, Storm Lake United, Buena Vista County Foundation, Community Education, and Storm Lake Cemetery.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the City's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets, consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, and community programs and services.

The Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

The Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used for transfers to other funds to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal development projects.

The Debt Service Fund is used to account for property tax and other revenue to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The King's Pointe Fund is used to account for the operation of a hotel facility and indoor water park.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Storm Water Fund is used to account for the operation and maintenance of the City's storm water system.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

Additionally, the City also reports the following funds:

Proprietary Fund - The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Fund – Account for assets held by the City in a trustee or agency capacity for the benefit of others. Fiduciary funds account for assets held by the City under the terms of a formal trust agreement and which cannot be used to support City activities.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenue (shared revenue, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies - (Continued)

C. Measurement Focus and Basis of Accounting -- (Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2013 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2012.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Prepays – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in both the government-wide and fund financial statements on the consumption method.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Interest Capitalized - Construction period interest for business-type activities is capitalized. For projects paid with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year end. No amounts were capitalized in 2013.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Capital assets of the City are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u> <u>(In Years)</u>
Buildings and improvements	20 – 40 years
Equipment and vehicles	5 – 20 years
Infrastructure	20 years

Under current accounting standards, the City is not required to, and the City has chosen not to, retroactively capitalize infrastructure assets. However, infrastructure projects since 2004 are properly included in the government-wide financial statements. Because the infrastructure assets constructed prior to 2004 have not been capitalized, the debt related to infrastructure assets causes the reporting of capital assets net of related debt in the statement of net position to be lower than it would be if the infrastructure were capitalized.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Position consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Subsequent Events

The City has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. Cash, Cash Equivalents and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. Cash, Cash Equivalents and Pooled Investments - (Continued)

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 467,705	\$ 89,728
Special Revenue Funds:		
Special Levy	-	68,522
Tax Increment Financing	-	327,014
Proprietary Funds:		
King's Pointe	<u>89,728</u>	<u>72,169</u>
	<u>\$ 557,433</u>	<u>\$ 557,433</u>

These balances result from interfund advances made to finance projects or enterprise operations. Repayments will be made as time deposits mature or enterprise operations become profitable.

4. Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 3,093,116	\$ 134,660	\$ -	\$ 3,227,776
Construction in progress	<u>2,592,472</u>	<u>474,910</u>	<u>2,913,401</u>	<u>153,981</u>
Total capital assets not being depreciated/amortized:	<u>5,685,588</u>	<u>609,570</u>	<u>2,913,401</u>	<u>3,381,757</u>
Capital assets being depreciated/amortized:				
Buildings	5,966,392	-	-	5,966,392
Improvements other than buildings	15,521,994	-	-	15,521,994
Equipment and vehicles	4,992,300	760,431	-	5,752,731
Intangibles	43,421	-	-	43,421
Infrastructure, road network	<u>7,806,085</u>	<u>2,865,805</u>	<u>-</u>	<u>10,671,890</u>
Total capital assets being depreciated/amortized	<u>34,330,192</u>	<u>3,626,236</u>	<u>-</u>	<u>37,956,428</u>
Less accumulated depreciation/amortization for:				
Buildings	2,956,333	177,893	-	3,134,226
Improvements other than buildings	4,826,676	507,187	-	5,333,863
Equipment and vehicles	3,416,307	328,948	-	3,745,255
Intangibles	43,421	-	-	43,421
Infrastructure, road network	<u>1,793,015</u>	<u>493,189</u>	<u>-</u>	<u>2,286,204</u>
Total accumulated depreciation/amortization	<u>13,035,752</u>	<u>1,507,217</u>	<u>-</u>	<u>14,542,969</u>
Total capital assets being depreciated/amortized, net	<u>21,294,440</u>	<u>2,119,019</u>	<u>-</u>	<u>23,413,459</u>
Governmental activities capital assets, net	<u>\$ 26,980,028</u>	<u>\$ 2,728,589</u>	<u>\$ 2,913,401</u>	<u>\$ 26,795,216</u>

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4. Capital Assets- (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 401,051	\$ -	\$ -	\$ 401,051
Construction in progress	1,479,859	5,979,512	1,165,162	6,294,209
Total capital assets not being depreciated	<u>1,880,910</u>	<u>5,979,512</u>	<u>1,165,162</u>	<u>6,695,260</u>
Capital assets being depreciated:				
Buildings	29,730,601	-	-	29,730,601
Equipment and vehicles	3,327,073	420,406	-	3,747,479
Infrastructure, road network	24,661,293	1,165,162	-	25,826,455
Total capital assets being depreciated	<u>57,718,967</u>	<u>1,585,568</u>	<u>-</u>	<u>59,304,535</u>
Less accumulated depreciation for:				
Buildings	11,546,527	806,225	-	12,352,752
Equipment and vehicles	1,943,948	358,761	-	2,302,709
Infrastructure, road network	12,445,534	941,932	-	13,387,466
Total accumulated depreciation	<u>25,936,009</u>	<u>2,106,918</u>	<u>-</u>	<u>28,042,927</u>
Total capital assets being depreciated, net	<u>31,782,958</u>	<u>(521,350)</u>	<u>-</u>	<u>31,261,608</u>
Business-type activities capital assets, net	<u>\$33,663,868</u>	<u>\$5,458,162</u>	<u>\$1,165,162</u>	<u>\$37,956,868</u>
Depreciation/amortization expense was charged to the following functions:				
Governmental activities:				
Public safety				\$ 188,134
Public works				726,562
Culture and recreation				498,747
General government				93,774
Total depreciation/amortization expense-governmental activities				<u>\$ 1,507,217</u>
Governmental activities:				
Water				\$ 762,882
Wastewater				474,478
Storm water				65,761
King's Pointe				803,797
Total depreciation expense-business type activities				<u>\$ 2,106,918</u>

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

5. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Special Levy	\$ 58,502
	Enterprise:	
	Water	43,069
	Sewer	41,949
		<u>143,520</u>
Debt Service	General	108,493
	Special Revenue:	
	Local Option Sales Tax	415,039
	Tax increment financing	345,562
	Enterprise:	
	King's Pointe	<u>770,657</u>
		<u>1,639,751</u>
Capital Projects	General	305,882
	Special Revenue:	
	Road Use Tax	595,874
	Tax increment financing	131,900
	Local Option Sales Tax	599,098
	Enterprise:	
	Sanitation	<u>10,000</u>
		<u>1,642,754</u>
Special Revenue:		
Tax increment financing	Enterprise:	
	Water	16,929
	Sewer	<u>32,861</u>
		<u>49,790</u>
Enterprise:	Proprietary:	
Water	Internal Service Fund	11,106
	Debt Service	14,910
	Capital Projects	477,531
	Enterprise:	
	King's Pointe	<u>22,469</u>
		<u>526,016</u>
Wastewater	Debt Service	54,125
King's Pointe	Special Revenue:	
	Local Option Sales Tax	310,702
	Tax increment financing	<u>193,118</u>
		<u>503,820</u>
Pension Trust:	Special Revenue:	
Police/Fire	Special Levy	244,928

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. Long-term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2013:

	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year	Due Within One Year
Governmental Activities:					
General obligation bonds/notes	\$26,230,000	\$ 480,000	\$ 825,000	\$25,885,000	\$ 915,000
Compensated absences	286,657	48,833	-	335,490	335,490
Net OPEB liability	40,431	20,670	3,191	57,910	-
Totals	<u>\$26,557,088</u>	<u>\$ 549,503</u>	<u>\$ 828,191</u>	<u>\$26,278,400</u>	<u>\$1,250,490</u>
Business-Type Activities:					
Note payable - bank	\$ 548,525	\$ -	\$ 509,443	\$ 39,082	\$ 39,082
Revenue bonds	7,912,000	9,475,000	443,000	16,944,000	735,000
Compensated absences	92,700	17,909	-	110,609	110,609
Totals	<u>\$ 8,553,225</u>	<u>\$9,492,909</u>	<u>\$ 952,443</u>	<u>\$17,093,691</u>	<u>\$ 884,691</u>

Annual debt service requirements to maturity for general obligation bonds/notes and revenue bonds at June 30, 2013 are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			
	General Obligation					
Year Ending	<u>Bonds/Notes</u>		<u>Revenue Bonds/Notes</u>		<u>Total</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	915,000	1,109,125	735,000	490,459	1,650,000	1,599,584
2015	970,000	1,069,553	1,678,000	442,258	2,648,000	1,511,811
2016	1,410,000	1,031,143	801,000	416,975	2,211,000	1,448,118
2017	1,490,000	984,950	820,000	399,535	2,310,000	1,384,485
2018	1,655,000	933,291	834,000	380,654	2,489,000	1,313,945
2019-2023	8,540,000	3,736,573	4,506,000	1,576,438	13,046,000	5,313,011
2024-2028	9,515,000	1,475,011	3,905,000	955,414	13,420,000	2,430,425
2029-2033	<u>1,390,000</u>	<u>139,583</u>	<u>3,665,000</u>	<u>364,370</u>	<u>5,055,000</u>	<u>503,953</u>
Totals	\$25,885,000	\$10,479,229	\$ 16,944,000	\$ 5,026,103	\$ 42,829,000	\$ 15,505,332

General Obligation Bonds/Notes

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as serial bonds with substantially equal amounts of principal plus interest maturing each year. General obligation bond debt service related to the \$5,400,000 bond issue in 2006 and the \$2,700,000 bond issue in 2011 are subject to annual appropriation by the City Council. In accordance with the Code of Iowa, only that portion subject to the annual appropriation by the City Council is included in the computation of the statutory debt limit.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. Long-term Liabilities - (Continued)

General Obligation Bonds/Notes- (Continued)

Details of general obligation bonds/notes payable at June 30, 2013 are as follows:

	<u>Year of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Year of Maturity</u>	<u>Annual Principal Payments</u>	<u>Outstanding Balance</u>
Essential corporate purpose	2005	3.75% - 4.25%	\$5,600,000	2025	\$185,000 - \$435,000	\$ 4,155,000
Urban renewal	2006	5.25% - 5.70%	6,000,000	2025	130,000 - 390,000 ¹	5,560,000
Urban renewal	2006	4.00% - 4.75%	5,400,000	2026	205,000 - 385,000	3,960,000
Urban renewal	2007	5.45% - 5.65%	2,945,000	2027	5,000 - 100,000 ²	2,940,000
Capital loan notes	2010	2.00% - 6.10%	2,500,000	2029	40,000 - 200,000	2,265,000
Urban renewal	2011	2.00% - 4.20%	2,700,000	2031	110,000 - 185,000 ³	2,700,000
Urban renewal	2012	1.00% - 2.20%	3,825,000	2025	350,000 - 425,000	3,825,000
Capital loan notes	2013	1.00% - 2.00%	480,000	2018	90,000 - 100,000	480,000
Total						<u>\$25,885,000</u>

¹ One additional \$2,330,000 payment in 2025.

² Payments begin in 2013. Additional annual payments of \$945,000 and \$1,125,000 in 2026 and 2027, respectively.

³ One additional \$830,000 payment in 2031.

General Obligation Advanced Refunding Notes

In February 2012 the City issued \$3,825,000 of general obligation refunding notes to advance refund the 2005 general obligation bonds under a crossover refunding arrangement. The proceeds of the 2012 refunding notes were placed in an irrevocable trust fund to provide for the future debt service of the 2005 notes. Interest on the 2012 refunding notes will be paid from the escrow account through June 1, 2015, on which date the 2005 notes will be called for redemption and also paid from the escrow account. As a result of the advance refunding, the City achieved a debt service savings of \$206,045. The escrow account assets and the liability for the notes are included in the City's financial statements until defeasance occurs.

Revenue Bonds/Notes

The City issues bonds/notes where the government pledges income derived from the required or constructed assets to pay debt service. Details of revenue bonds/notes payable at June 30, 2013 are as follows:

	<u>Year of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Year of Maturity</u>	<u>Annual Principal Payments</u>	<u>Outstanding Balance</u>
Water revenue	2003	3.00%	\$7,500,000	2024	\$324,000 - \$490,000	\$ 4,664,000
Storm water revenue	2006	3.00%	729,000	2027	29,000 - 48,000	553,000
Wastewater revenue	2007	3.00%	660,000	2027	25,000 - 44,000	502,000
Wastewater revenue	2010	3.00%	900,000	2014	None ⁴	900,000
Water capital loan note	2011	4.40% - 5.00%	200,000	2031	5,000 - 15,000	195,000
Sewer capital loan note	2011	3.00% - 5.00%	680,000	2031	25,000 - 50,000	655,000
Storm water revenue	2013	1.00% - 3.50%	1,100,000	2033	30,000 - 75,000	1,100,000
Sewer capital loan note	2013	0.50% - 3.25%	6,035,000	2033	250,000 - 370,000	6,035,000
Water capital loan note	2013	3.00% - 3.25%	2,340,000	2033	230,000 - 295,000	2,340,000
Total						<u>\$16,944,000</u>

⁴ One \$900,000 payment on December 1, 2014.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. Long-term Liabilities - (Continued)

Revenue Bonds/Notes- (Continued)

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$7,500,000, \$200,000 and \$2,340,000 in water revenue notes issued in August 2003, August 2011 and April 2013 respectively. Proceeds from the notes provided financing for the construction of improvements to the water system. The notes are payable solely from water customer net revenues and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 60 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$9,401,306. For the current year, principal and interest paid and total customer net revenues (operating revenues plus depreciation expense) were \$518,850 and \$1,183,357 respectively.

The City has pledged future wastewater customer receipts, net of specified operating disbursements, to repay \$660,000, \$900,000, \$680,000 and \$6,035,000 in wastewater revenue notes issued in April 2007, June 2010, August 2011 and May 2013 respectively. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net receipts and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 50 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$10,414,617. For the current year, principal and interest paid and total customer net revenues were \$97,425 and \$950,631 respectively.

The City has pledged future storm water customer receipts, net of specified operating disbursements, to repay \$729,000 and \$1,100,000 in storm water revenue notes issued in October 2006 and May 2013. Proceeds from the notes provided financing for the construction of improvements to the storm water system. The notes are payable solely from storm water customer net receipts and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 50 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$2,154,179. For the current year, principal and interest paid and total customer net revenues were \$48,520 and \$ 74,804 respectively.

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish user rates at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

7. Pension and Retirement Benefits

Municipal Fire and Police Retirement System

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, Iowa 50266.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

7. Pension and Retirement Benefits - (Continued)

Municipal Fire and Police Retirement System- (Continued)

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution rates are established by state statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012, and 2011 were \$244,928, \$221,534, and \$176,365, respectively, which met the required minimum contribution requirement for each year.

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, 2011, were \$158,050, \$140,803, and \$117,625 respectively, equal to the required contributions for each year.

ICMA Retirement Plan

The Public Safety Director, City Administrator, and City Community Development Director are covered under the nationwide retirement plan offered by the International City Manager's Association (ICMA). Contributions required by the employer are 12% of the annual salary for the Public Safety Director, \$2,000 per year for the City Community Development Director, and an annual salary determined on a calendar year basis for the City Administrator - \$8,300 for calendar year 2012 and \$9,500 for calendar year 2013.

The City's responsibility is limited to payment of contributions required by established rates. The employer's contribution paid by the City for the year ended June 30, 2013 totaled \$20,903.

8. Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their eligible dependents. There are 59 active members and one retired member in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

Contributions are required for both retiree and dependent coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

The medical/prescription drug coverage is provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8. Other Postemployment Benefits (OPEB) – (Continued)

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 18,851
Interest on net OPEB obligation	1,819
Adjustment to annual required contribution	<u>(2,482)</u>
Annual OPEB cost	18,188
Contributions made	<u>(709)</u>
Increase in net OPEB obligation	17,479
Net OPEB obligation - beginning of year	<u>40,431</u>
Net OPEB obligation - end of year	<u>\$ 57,910</u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

The required contribution is based on projected pay-as-you-go financing. For the year ended June 30, 2013, the City contributed \$709. Retiree and active members receiving benefits have required contributions of \$450.88 per month for single health coverage and \$1,036.99 per month for retiree and spouse coverage.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 13,600	0.00%	\$ 27,200
2012	\$ 13,231	0.00%	\$ 40,431
2013	\$ 18,188	3.90%	\$ 57,910

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was approximately \$124,528, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$124,528. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,569,000 and the ratio of the UAAL to covered payroll was 4.85%. As of June 30, 2013, there were no trust fund assets.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8. Other Postemployment Benefits (OPEB) – (Continued)

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on the 2004 United States Life Tables.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – A rate of 7 percent initially, reduced to an ultimate rate of 5.0 percent after three years, was used for the expected rate of increase in healthcare insurance premiums.

Health insurance premiums – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

9. Commitments

The City has entered into construction contracts totaling approximately \$18,509,554 for street, water, sewer, and storm water utility improvement projects. As of June 30, 2013, costs of approximately \$8,109,837 have been incurred on the projects. The remaining \$10,399,717 will be paid as work on the projects progresses.

The City has entered into an agreement for the operation and maintenance of the City's wastewater treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the year ending June 30, 2013 is \$58,665 per month. This agreement was subsequently terminated on October 2, 2013.

The City has entered into an agreement for the operations and maintenance of the City's water and water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the year ending June 30, 2013 is \$83,534. This agreement was subsequently terminated on October 2, 2013.

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

9. Commitments – (Continued)

The City has entered into an agreement for the management of the airport for the year ending June 30, 2013 for \$3,044 per month.

The City has entered into a Facility Management Agreement with Kinseth Hotel Corporation (Kinseth) to manage the King's Pointe Waterpark Resort through June 30, 2013, with annual one-year renewals thereafter. A base management fee will be paid at \$4,000 per month for five months of operation (July through September and May through June of the following calendar year).

The City has also entered into a Management Agreement with Kinseth to manage the King's Pointe Resort through June 30, 2013, with annual renewals thereafter. A management fee will be paid at three percent of each month's gross revenues and twelve percent of the improvement in net available cash at each fiscal year end compared to the prior fiscal year end.

On January 1, 2013, the City entered into a Management Agreement with Kinseth Hotel Corporation (Kinseth) to manage the Sunrise Pointe golf course through June 30, 2013, with annual renewals thereafter. A base management fee will be paid at \$1,750 per month.

10. Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Effective August 1, 1983, the City adopted a plan of self-insurance for employee's health benefits. Deposits are made to the Employee Health Benefit Fund, an internal service fund of the City, to pay employee claims. An excess coverage insurance policy covers individual claims over \$20,000, or total group claims exceeding 125% of expected claims.

An actuarial study of the adequacy of reserves, rates, and financial condition of the Employee Health Benefit Fund was performed for the plan year January 1, 2012 to December 31, 2012. The study included census of covered members as of December 31, 2012, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenue and expenses and review of the plan document summary description.

Following is a financial analysis of the plan for the year ended December 31, 2012. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

Net position - January 1, 2012	\$ 802,583
Contributions received	613,255
Interest earned	1,485
Other sources of revenue	<u>722</u>
	<u>1,418,045</u>
Claims paid	385,000
Aggregate stop-loss premiums and other charges	<u>159,910</u>
	<u>544,910</u>
Net position - December 31, 2012	873,135
Reserved for estimated incurred but unpaid claims	<u>57,750</u>
	<u>\$ 815,385</u>

CITY OF STORM LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

11. Deferred Compensation

The City offers its employees deferred compensation plans as allowed by the Internal Revenue Code Section 457. City employees are allowed to defer a portion of the current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death, or unforeseeable emergency.

The City has adopted GASB Statement 32 and does not report the assets of the plans on its balance sheet.

12. Conduit Debt Obligations

To provide for the construction of additions to the library, dormitories, and a recreation facility at Buena Vista University, the City has issued a series of Higher Education Facilities Revenue Bonds. In addition, the City issued Elderly Housing Revenue Bonds for the construction of dietary and maintenance facilities and an addition of a 38-unit independent living facility at Methodist Manor Retirement Community. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received by the university and the care facility. The bonds do not constitute a debt or pledge of the faith and credit of the City and, accordingly, have not been reported in the accompanying financial statements.

A summary of conduit debt obligations is as follows:

	Originally <u>Issued</u>	Date of <u>Issue</u>	Balance Outstanding <u>June 30, 2012</u>
Higher Education Facilities Revenue Bonds	\$ 7,630,000	5/24/2000	\$ 4,085,000
Elderly Housing Revenue Bonds	4,565,000	6/1/2007	4,045,000
Elderly Housing Revenue Bonds	4,950,000	10/17/2011	4,510,000

13. Litigation

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. City officials believe the outcome of these matters will not have a material adverse effect on the City's financial statements.

14. Deficit Fund Balances

The Special Revenue – Tax Increment Financing fund had a deficit balance of \$345,435 at June 30, 2013. The deficit fund balance is a result of unpaid taxes in the TIF area and capital expenses in the new TIF area.

15. Subsequent Events

Subsequent to the year ending June 30, 2013, the City entered into various contracts for sanitary sewer system improvements totaling approximately \$6,300,000. These projects will be funded with Federal and State grants and funds on hand.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STORM LAKE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 3,552,240	\$ -	\$ 3,552,240	\$ 3,578,088	\$ 3,578,088	\$ (25,848)
Tax increment financing	634,493	-	634,493	743,570	743,570	(109,077)
Other city tax	1,595,423	-	1,595,423	1,560,023	1,590,713	4,710
Licenses and permits	163,414	-	163,414	168,100	168,100	(4,686)
Use of money and property	147,001	18,369	165,370	36,440	36,440	128,930
Intergovernmental	2,978,519	2,058,427	5,036,946	4,909,682	10,845,195	(5,808,249)
Charges for service	1,275,818	10,705,895	11,981,713	11,736,569	11,761,569	220,144
Miscellaneous	560,383	432,081	992,464	328,100	555,850	436,614
Total receipts	10,907,291	13,214,772	24,122,063	23,060,572	29,279,525	(5,157,462)
Disbursements:						
Public safety	2,405,680	-	2,405,680	2,660,015	2,730,015	324,335
Public works	1,340,841	-	1,340,841	1,141,381	1,400,806	59,965
Health and social services	3,504	-	3,504	5,500	5,500	1,996
Culture and recreation	1,559,731	-	1,559,731	1,616,775	1,646,660	86,929
Community and economic development	510,161	-	510,161	563,971	594,309	84,148
General government	445,610	-	445,610	398,855	470,415	24,805
Debt service	1,897,222	-	1,897,222	1,967,179	1,968,679	71,457
Capital projects	1,777,615	-	1,777,615	2,676,036	2,847,786	1,070,171
Business type activities	-	14,432,283	14,432,283	12,469,103	17,586,126	3,153,843
Total disbursements	9,940,364	14,432,283	24,372,647	23,498,815	29,250,296	4,877,649
Excess (deficiency) of receipts over disbursements	966,927	(1,217,511)	(250,584)	(438,243)	29,229	(279,813)
Other financing sources, net	112,317	8,590,386	8,702,703	2,132,000	8,937,178	(234,475)
Excess of receipts and other financing sources over disbursements and other financing uses	1,079,244	7,372,875	8,452,119	1,693,757	8,966,407	(514,288)
Balance, beginning of year	2,372,971	7,875,537	10,248,508	9,664,172	9,664,172	584,336
Balance, end of year	\$ 3,452,215	\$ 15,248,412	\$ 18,700,627	\$11,357,929	\$18,630,579	\$ 70,048

See accompanying independent auditor's report.

CITY OF STORM LAKE
BUDGET TO GAAP RECONCILIATION
YEAR ENDED JUNE 30, 2013

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 10,907,291	\$ (1,361,268)	\$ 9,546,023
Expenditures	9,940,364	(350,226)	9,590,138
Net	966,927	(1,011,042)	(44,115)
Other financing sources, net	112,317	-	112,317
Beginning fund balances	2,372,971	5,264,472	7,637,443
Ending fund balances	<u>\$ 3,452,215</u>	<u>\$ 4,253,430</u>	<u>\$ 7,705,645</u>

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 13,214,772	\$ 1,683,972	\$14,898,744
Expenditures	14,432,283	(3,232,104)	11,200,179
Net	(1,217,511)	4,916,076	3,698,565
Other financing sources, net	8,590,386	(8,444,359)	146,027
Beginning net position	7,875,537	25,619,348	33,494,885
Ending net position	<u>\$ 15,248,412</u>	<u>\$ 22,091,065</u>	<u>\$37,339,477</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2013 the budget was amended once which increased budgeted disbursements by \$5,751,481. The budget amendment is reflected in the final budgeted amounts.

CITY OF STORM LAKE
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
2010	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$2,250,000	3.80%
2011	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$2,863,000	3.00%
2012	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$3,067,000	2.77%
2013	July 1, 2012	-	\$ 124,528	\$ 124,528	0.00%	\$2,568,545	4.85%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

CITY OF STORM LAKE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

Schedule 1

ASSETS	Special Revenue					Permanent	Total
	Tort Insurance	Crime Prevention	Library	Expendable Gift	Law Enforcement	Emma Meyers Trust	
Cash, cash equivalents and pooled investments	\$ 200,856	\$ 24,785	\$ 103,842	\$ 6,003	\$ 149,044	\$ 2,714	\$ 487,244
Receivables							
Property tax:							
Delinquent	1,645	-	-	-	-	-	1,645
Succeeding year	70,000	-	-	-	-	-	70,000
Accounts	-	-	-	-	105	-	105
Accrued Interest	-	-	7	-	-	-	7
Prepaid expenses	70,818	-	-	-	-	-	70,818
Total assets	<u>\$ 343,319</u>	<u>\$ 24,785</u>	<u>\$ 103,849</u>	<u>\$ 6,003</u>	<u>\$ 149,149</u>	<u>\$ 2,714</u>	<u>\$ 629,819</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ -	\$ 363	\$ 250	\$ -	\$ -	\$ -	\$ 613
Deferred revenue:							
Succeeding year property tax	70,000	-	-	-	-	-	70,000
Other	1,645	-	-	-	-	-	1,645
Total liabilities	<u>71,645</u>	<u>363</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,258</u>
Fund balances:							
Nonspendable:							
Prepaid expenses	70,818	-	-	-	-	-	70,818
Permanent	-	-	-	-	-	2,714	2,714
Restricted	200,856	24,422	-	6,003	-	-	231,281
Assigned	-	-	103,599	-	149,149	-	252,748
Total fund balances	<u>271,674</u>	<u>24,422</u>	<u>103,599</u>	<u>6,003</u>	<u>149,149</u>	<u>2,714</u>	<u>557,561</u>
Total liabilities and fund balances	<u>\$ 343,319</u>	<u>\$ 24,785</u>	<u>\$ 103,849</u>	<u>\$ 6,003</u>	<u>\$ 149,149</u>	<u>\$ 2,714</u>	<u>\$ 629,819</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

Schedule 2

	Special Revenue					Permanent	
	Tort Insurance	Crime Prevention	Library	Expendable Gift	Law Enforcement	Emma Meyers Trust	Total
Revenues:							
Property tax	\$ 66,843	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,843
Other city tax	2,750	-	-	-	-	-	2,750
Use of money and property	765	66	230	-	162	-	1,223
Intergovernmental	-	-	5,473	-	-	-	5,473
Charges for services	-	-	747	-	-	-	747
Miscellaneous	15,766	8,478	25,088	-	50,592	-	99,924
Total revenues	86,124	8,544	31,538	-	50,754	-	176,960
Expenditures:							
Operating:							
Public Safety	-	5,193	-	-	62,862	-	68,055
Culture and recreation	-	-	10,966	-	-	-	10,966
Community and economic development	-	-	-	1,314	-	-	1,314
General government	138,225	-	-	-	-	-	138,225
Total expenditures	138,225	5,193	10,966	1,314	62,862	-	218,560
Net change in fund balances	(52,101)	3,351	20,572	(1,314)	(12,108)	-	(41,600)
Fund balances beginning of year	323,775	21,071	83,027	7,317	161,257	2,714	599,161
Fund balances end of year	\$ 271,674	\$ 24,422	\$ 103,599	\$ 6,003	\$ 149,149	\$ 2,714	\$ 557,561

See accompanying independent auditor's report.

CITY OF STORM LAKE
SCHEDULE OF AND CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2013

Schedule 3

<u>Lake Improvements Commission</u>				
	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Assets				
Cash, cash equivalents				
and pooled investments	\$ 1,742,615	\$ 682,970	\$ 756,693	\$ 1,668,892
Interest receivable	592	5,888	5,617	863
Due from other governments	83,353	88,511	83,353	88,511
Prepaid Expenses	17,397	-	17,397	-
Total assets	<u>\$ 1,843,957</u>	<u>\$ 777,369</u>	<u>\$ 863,060</u>	<u>\$ 1,758,266</u>
Liabilities:				
Accounts payable	\$ 19,406	\$ 172,803	\$ 19,406	\$ 172,803
Due to other governments	1,824,551	604,566	843,654	1,585,463
Total liabilities	<u>\$ 1,843,957</u>	<u>\$ 777,369</u>	<u>\$ 863,060</u>	<u>\$ 1,758,266</u>

<u>Drainage</u>				
	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Assets				
Cash, cash equivalents				
and pooled investments	\$ (144,312)	\$ 199,004	\$ 136,125	\$ (81,433)
Due from other governments	144,312	81,433	144,312	81,433
Total assets	<u>\$ -</u>	<u>\$ 280,437</u>	<u>\$ 280,437</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	\$ -	\$ 280,437	\$ 280,437	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ 280,437</u>	<u>\$ 280,437</u>	<u>\$ -</u>

<u>Gingerbread House</u>				
	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Assets				
Cash, cash equivalents				
and pooled investments	\$ 14,363	\$ 5,000	\$ -	\$ 19,363
Total assets	<u>\$ 14,363</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 19,363</u>
Liabilities:				
Accounts payable	\$ 14,363	\$ 5,000	\$ -	\$ 19,363
Total liabilities	<u>\$ 14,363</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 19,363</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION –
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

Schedule 4

	Modified Accrual Basis									
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:										
Property tax	\$ 3,552,240	\$ 3,260,585	\$ 3,228,638	\$ 2,927,869	\$ 2,827,598	\$ 2,799,837	\$ 2,669,623	\$ 2,625,565	\$ 2,369,578	\$ 2,201,582
Tax increment financing	634,493	516,655	510,733	542,506	281,009	129,377	83,873	84,850	36,460	33,264
Other city tax	1,593,392	1,812,822	1,496,467	1,199,479	1,337,504	1,209,525	1,352,178	1,132,590	1,076,883	1,113,416
Licenses and permits	164,956	217,743	199,614	177,904	340,468	383,606	759,810	693,381	298,777	445,652
Use of money and property	160,439	152,469	65,105	271,658	1,171,521	1,150,540	487,579	430,791	472,177	464,140
Intergovernmental	1,541,429	3,249,872	2,338,053	1,260,382	163,747	256,198	182,624	109,485	100,288	142,724
Charges for service	1,338,590	1,206,912	1,342,382	1,171,084	2,502,482	1,070,861	2,563,765	1,535,489	2,059,008	1,476,894
Special assessments	-	-	-	-	-	-	-	-	1,343	50,142
Miscellaneous	560,484	1,014,903	369,543	472,114	663,245	443,993	628,511	866,338	563,315	130,143
Total	<u>\$ 9,546,023</u>	<u>\$ 11,431,961</u>	<u>\$ 9,550,535</u>	<u>\$ 8,022,996</u>	<u>\$ 9,287,574</u>	<u>\$ 7,443,937</u>	<u>\$ 8,727,963</u>	<u>\$ 7,478,489</u>	<u>\$ 6,977,829</u>	<u>\$ 6,057,957</u>
Expenditures:										
Operating:										
Public safety	\$ 2,399,511	\$ 2,356,275	\$ 2,301,118	\$ 2,130,274	\$ 2,092,319	\$ 1,996,699	\$ 1,731,813	\$ 1,747,843	\$ 1,741,482	\$ 1,640,085
Public works	1,367,553	1,284,121	1,237,937	1,043,094	1,029,727	1,007,552	871,683	921,209	947,440	819,776
Health and social services	3,504	4,276	5,464	5,984	9,796	14,221	12,850	10,700	9,034	15,700
Culture and recreation	1,465,544	1,466,694	1,594,837	1,482,908	1,444,437	1,494,431	715,125	837,193	829,871	837,515
Community and economic development	533,415	572,487	463,340	622,267	1,904,128	348,970	351,232	336,781	365,144	408,725
General government	438,491	401,761	338,549	366,308	386,912	338,702	287,970	273,172	278,934	268,705
Debt service	1,961,769	1,942,588	1,764,129	1,376,234	1,342,923	1,293,896	1,207,354	570,555	361,282	456,073
Capital projects	1,420,351	5,044,341	2,685,676	1,797,161	1,409,263	2,819,570	7,596,287	3,807,559	2,150,456	1,676,848
Total	<u>\$ 9,590,138</u>	<u>\$ 13,072,543</u>	<u>\$ 10,391,050</u>	<u>\$ 8,824,230</u>	<u>\$ 9,619,505</u>	<u>\$ 9,314,041</u>	<u>\$ 12,774,314</u>	<u>\$ 8,505,012</u>	<u>\$ 6,683,643</u>	<u>\$ 6,123,427</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Schedule 5

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Agency Pass-Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-19-0088-009-2013	<u>\$ 199,311</u>
U.S. Department of Housing and Urban Development:			
Office of Community Planning and Development			
Economic Development Initiative – Special Project			
Neighborhood Initiative and Miscellaneous Grants	14.251	B-05-SP-IA-0074	<u>11,852</u>
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-7422(611)--70-11	10,060
Highway Planning and Construction	20.205	STP-U-7422(613)--70-11	<u>42,395</u>
			<u>52,455</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	10-HSG-071	50,586
	14.228	12-CF-004	<u>292,113</u>
			<u>342,699</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Disaster Grants - Public Assistance	97.036		<u>24,269</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Hazard Mitigation Grant	97.039	HMGP-DR-1763-0165-01	2,798,828
Hazard Mitigation Grant	97.039	HMGP-DR-1930-0024-01	<u>25,388</u>
			<u>2,824,216</u>
Total			<u>\$ 3,454,802</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Storm Lake and is presented on the accrual or modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

P.O. BOX 398
1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
www.hpcocpa.com

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Storm Lake, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Storm Lake's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunnegelman, Putzier & Co., PLC

February 7, 2014

HUNZELMAN, PUTZIER & CO., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

P.O. BOX 398
1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
www.hpcocpa.com

Independent Auditor's Report on Compliance
for Each Major Federal Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Storm Lake
Storm Lake, Iowa 50588

Report on Compliance for Each Major Federal Program

We have audited City of Storm Lake, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. City of Storm Lake, Iowa's major federal programs are identified in Part I of the accompanying *Schedule of Findings*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City of Storm Lake's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Storm Lake, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on City of Storm Lake's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Storm Lake, Iowa complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of City of Storm Lake, Iowa is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered City of Storm Lake, Iowa's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Storm Lake, Iowa's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditure of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of City of Storm Lake as of and for the year ended June 30, 2013, and have issued our report thereon dated February 7, 2014 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Hungelman, Putzier & Co., PLLC

February 7, 2014

CITY OF STORM LAKE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 14.228 Community Development Block Grants/State's Program
 - CFDA Number 97.039 Hazard Mitigation Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Storm Lake did not qualify as a low-risk auditee.

CITY OF STORM LAKE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Financial Reporting – We noted the City does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with the accrual basis of accounting. As is inherent in many organizations of this size, the City has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply the accrual basis of accounting in preparing the financial statements and the related disclosures.

Recommendation – The City should consider obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

Response – The City will continue to obtain additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Conclusion – Response accepted.

- (B) Bank Reconciliations – Although monthly bank reconciliations were prepared, variances existed between the bank balance and the general ledger balance. The reconciliations were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

Response – City staff will continue to develop a more thorough internal process for reconciling the bank statements.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted

Part III: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2013, did not exceed the amounts budgeted.
- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF STORM LAKE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

- (4) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (5) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (6) Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- (7) Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.
- (8) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.
- (9) Financial Condition – The Special Revenue Fund – Tax Increment Financing had a deficit balance of \$345,435 as of June 30, 2013.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

Response – The City will continue to look at way to avoid deficits in fund balances when feasible.

Conclusion – Response accepted.